

BEAUTY (BEAUTY TB)

Beauty Community

Current SELL	Previous BUY	Close 21.40	2018 TP 20.50	Exp Return +4.21%	THAI CAC N/A	CG 2017 3
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Consolidated earnings

BT (mn)	2016	2017	2018E	2019E
Normalized earnings	656	1,229	1,568	1,921
Net profit	656	1,229	1,568	1,921
Normalized EPS (Bt)	0.22	0.41	0.52	0.64
EPS (Bt)	0.22	0.41	0.52	0.64
% growth	62.99	87.22	27.54	22.51
Dividend (Bt)	0.22	0.26	0.37	0.45
BV/share (Bt)	0.44	0.57	0.72	0.91
EV/EBITDA (x)	73.6	39.8	31.0	25.1
Normalized PER (x)	96.5	51.5	40.4	33.0
PER (x)	96.5	51.5	40.4	33.0
PBV (x)	47.9	37.2	29.4	23.2
Dividend yield (%)	1.0	1.2	1.7	2.1
ROE (%)	49.7	72.1	72.7	70.3
YE No. of shares (million)	3,000	3,003	3,003	3,003
Par (Bt)	0.10	0.10	0.10	0.10

Source: Company data, FSS estimates

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1Q18 profit misses estimate

1Q18 net profit down 31% Q-Q and up 41% Y-Y

BEAUTY's 1Q18 net profit comes in at Bt282mn (-31% Q-Q, +41% Y-Y), missing our estimate of Bt300mn. In the January-March quarter, same-store-sales growth (SSSG) continued to grow 18.4% Y-Y. However, it was down from the 25.9% in 4Q17. During the quarter, BEAUTY opened 19 new branches, sending total number of branches to 380. Gross margin stood at 67.7%, quite steady when compared to the 67.4% in 4Q17 and the 66.7% in 1Q17. However, SG&A expense substantially increased, in line with the rise in the number of employees and branches. Hence, net profit margin was down to 31.4% (vs. 37.4% in 4Q17).

Share price fully valued, lower rating to SELL

Although the sharp Q-Q fall can partly be blamed on seasonality, marketing expense also increased. Hence, we believe that BEAUTY was also facing increased competition. This implies that the company's performance might have passed its peak of Bt408mn in 4Q17. BEAUTY's 1Q18 net profit is enough to secure 18% of our full-year estimate of Bt1.6bn. Although it represents a jump of 28% Y-Y, it is lower than its five-year historical CAGR of 45%. What's more, the counter is fully valued. In particular, it currently trades at 2018-2019 PE of 33-40x, respectively. Assuming 2019-2020 average growth, this is equal to forward PEG of 1.3-1.6x, respectively, in line with the commerce sector's average. Hence, we have lowered our rating on BEAUTY to SELL at our 2018 DCF-based TP of Bt20.5 (WACC 7%).

Risks - A slowdown in the purchasing power in Thailand and abroad, particularly China

1Q18 Earnings Results

(Bt mn)	1Q18	4Q17	%Q-Q	1Q17	%Y-Y	Comment
Revenues	898	1,091	-17.6	683	31.6	<ul style="list-style-type: none"> In 1Q18, revenues decreased Q-Q due to its high base. However, it was up Y-Y in line with the rise in SSSG. Moreover, BEAUTY opened 13 new branches from 1Q17.
Cost of services	290	355	-18.2	228	27.6	
Gross profit	608	735	-17.4	455	33.6	
SG&A	270	230	17.1	210	28.4	<ul style="list-style-type: none"> Gross margin was flat both Q-Q and Y-Y.
Interest expense	0	0	0.0	0	0.0	
Normalized earnings	282	408	-30.8	200	41.5	<ul style="list-style-type: none"> SG&A expense increased to 30% of total revenues. It's up both Q-Q and Y-Y in line with the rise in both the number of employees and branches.
Net profit	282	408	-30.8	200	41.5	
EPS	0.09	0.14	-30.8	0.07	41.5	
Gross margin (%)	67.7	67.4	0.2	66.7	1.0	
SG&A of Sales (%)	30.0	21.1	8.9	30.8	-0.8	
Net profit margin (%)	31.4	37.4	-6.0	29.3	2.2	

Source: Company and FSS Research

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Muang
Chiangmai

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Aumphoe Muang Nakornratchasima
Nakornratchasima

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Khonkaen

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Muang
Chiangmai

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Aumphoe Meungsamutsakorn,
Samutsakorn

Trang

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Rang sit

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Kukod, Lumlookka
Pratumtee

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Khonkaen

Chiangmai 3

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Tumbon Maehia
Chiangmai

Phuket

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Amphoe Muang Phuket,
Phuket

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Tumbon Makamtia,
Aumphoe Mueang, Suratthani

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Khonkaen

Chiangrai

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Aumphoe Muang, Cheangrai

Hatyai 1

200/221, 200/223
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Building, Niphat Uthit 3 Road,
Aumphoe Hadyai, Songkhla

Pattane

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Tumbon Rusamirae,
Aumphoe Meung, Pattane

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Udonthani

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Udon Dusadee Road,
Tumbon Mak Khaeng,
Aumphoe Muang Udon Thani,
Udon Thani

Measai

119 Moo 10,
Tumbon Maesai,
Aumphoe Muang, Cheangrai

Hatyai 2

106 Prachathipat Road,
Aumphoe Hadyai, Songkhla

Recommendation Definitions

BUY	The latest close is below our target price and the estimated upside is 10% or more.
HOLD	The latest close is below our target price and the estimated upside is 0-10%.
SELL	The latest close is above our target price.
TRADING BUY	The latest close is above our target price but the price is expected to be driven by short-term positive factors
OVERWEIGHT	The estimated return is higher than the market average.
NEUTRAL	The estimated return is the same as the market average.
UNDERWEIGHT	The estimated return is lower than the market average

Note: The expected return may change as market risks increase or decline.

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Thai Institute of Directors Association (IOD) - Corporate Governance Report Rating 2017

Score Range	Rating	Description
100-90		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	no logo given	n/a

IOD (IOD Disclaimer)

The Corporate Governance Report (CGR) of Thai listed Companies is based on a survey and assessment of information which companies listed on the Stock Exchange of Thailand and the Market for Alternative Investment ("**listed companies**") disclose to the public. The CGR is a presentation of information from the perspective of outsiders on the standards of corporate governance of listed companies. It is not any assessment of the actual practices of the listed companies, and the CGR does not use any non-public information. The CGR is not therefore an endorsement of the practices of the listed companies. It is not a recommendation for investment in any securities of any listed companies or any recommendation whatsoever. Investors should exercise their own judgment to analyze and consider any information relating to the listed companies presented in this CGR report. No representation or warranty is made by the Institute of Directors or any of its personnel as to the completeness or accuracy of the CGR report or the information used.

Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

1 CG Score 2017 from Thai Institute of Directors Association (IOD)

2 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors

(as of July 31, 2017) are categorised into:

- companies that have declared their intention to join CAC, and
- companies certified by CAC.